



8011-01p
SECURITIES AND EXCHANGE COMMISSION
[SEC File No. 270-586, OMB Control No. 3235-0647]
Proposed Collection; Comment Request

Upon Written Request, Copies Available From:
Securities and Exchange Commission
Office of FOIA Services
100 F Street, NE
Washington, DC 20549-2736

Extension: Rule 204

Notice is hereby given that pursuant to the Paperwork Reduction Act of 1995 (“PRA”) (44 U.S.C. 3501 et seq.), the Securities and Exchange Commission (“Commission”) is soliciting comments on the collection of information provided for in Rule 204 (17 CFR 242.204) under the Securities Exchange Act of 1934 (15 U.S.C. 78a et seq.). The Commission plans to submit this existing collection of information to the Office of Management and Budget (“OMB”) for extension and approval.

Rule 204(a) provides that a participant of a registered clearing agency must deliver securities to a registered clearing agency for clearance and settlement on a long or short sale in any equity security by settlement date, or if a participant of a registered clearing agency has a fail to deliver position at a registered clearing agency in any equity security for a long or short sale transaction in the equity security, the participant shall, by no later than the beginning of regular trading hours on the applicable close-out date, immediately close out its fail to deliver positions by borrowing or purchasing securities of like kind and quantity. For a short sale transaction, the participant must close out a fail to deliver by no later than the beginning of regular trading hours on the settlement day following the settlement date. If a participant has a fail to deliver that the participant can demonstrate on its books and records resulted from a long sale, or that is attributable to bona-fide market making activities, the participant must close out the fail to

deliver by no later than the beginning of regular trading hours on the third consecutive settlement day following the settlement date. Rule 204 is intended to help further the Commission's goal of reducing fails to deliver by maintaining the reductions in fails to deliver achieved by the adoption of temporary Rule 204T, as well as other actions taken by the Commission. In addition, Rule 204 is intended to help further the Commission's goal of addressing potentially abusive "naked" short selling in all equity securities.

The information collected under Rule 204 will continue to be retained and/or provided to other entities pursuant to the specific rule provisions and will be available to the Commission and self-regulatory organization ("SRO") examiners upon request. The information collected will continue to aid the Commission and SROs in monitoring compliance with these requirements. In addition, the information collected will aid those subject to Rule 204 in complying with its requirements. These collections of information are mandatory.

Several provisions under Rule 204 will impose a "collection of information" within the meaning of the Paperwork Reduction Act.

- I. Allocation Notification Requirement: As of December 31, 2017, there were 3,893 registered broker-dealers. Each of these broker-dealers could clear trades through a participant of a registered clearing agency and, therefore, become subject to the notification requirements of Rule 204(d). If a participant allocates a fail to deliver position to a broker or dealer pursuant to Rule 204(d), the broker or dealer that has been allocated the fail to deliver position in an equity security must determine whether or not such fail to deliver position was closed out in accordance with Rule 204(a). If such broker or dealer does not comply with the provisions of Rule 204(a), such broker or dealer must immediately notify the participant that it has

become subject to the requirements of Rule 204(b). We estimate that a broker or dealer could have to make such determination and notification with respect to approximately 1.76 equity securities per day.¹ We estimate a total of 1,719,772 potential notifications in accordance with Rule 204(d) across all registered broker-dealers (that could be allocated responsibility to close out a fail to deliver position) per year (3,893 registered broker-dealers notifying participants once per day² on 1.76 equity securities, multiplied by 251 trading days in 2017). The total estimated annual burden hours per year will be approximately 275,164 burden hours (1,719,772 multiplied by 0.16 hours/notification).

II. Demonstration Requirement for Fails to Deliver on Long Sales: As of December 5, 2017, there were 132 participants of NSCC that were registered as broker-dealers. If a participant of a registered clearing agency has a fail to deliver position in an equity security at a registered clearing agency and determined that such fail to deliver position resulted from a long sale, we estimate that a participant of a registered clearing agency will have to make such determination with respect to approximately 33 securities per day.³ We estimate a total of 1,093,356 potential demonstrations in accordance with Rule 204(a)(1) across all broker-dealer participants per year (132 participants checking for

¹ The Commission's Division of Economic and Risk Analysis ("DERA") estimates that there were approximately 6,868 average daily fail to deliver positions during 2017. Across 3,893 registered broker-dealers, the number of securities per registered broker-dealer per trading day is approximately 1.76 equity securities.

² Because failure to comply with the close-out requirements of Rule 204(a) is a violation of the rule, we believe that a broker or dealer would make the notification to a participant that it is subject to the borrowing requirements of Rule 204(b) at most once per day.

³ DERA estimates that during 2017 approximately 62.93% of trade volume was long. DERA estimates that there were approximately 6,868 average daily fail to deliver positions during 2017. Across 132 broker-dealer participants of the NSCC, the number of securities per participant per day is approximately 52 equity securities. 62.93% of 52 equity securities per trading day equals approximately 33 securities per day.

compliance once per day on 33 securities, multiplied by 251 trading days in 2017). The total approximate estimated annual burden hour per year will be approximately 174,937 burden hours (1,093,356 multiplied by 0.16 hours/documentation).

- III. Pre-Borrow Notification Requirement: As of December 5, 2017, there were 132 participants of NSCC that were registered as broker-dealers. If a participant of a registered clearing agency has a fail to deliver position in an equity security, the participant must determine whether or not the fail to deliver position was closed out in accordance with Rule 204(a). We estimate that a participant of a registered clearing agency will have to make such determination with respect to approximately 52 equity securities per day.⁴ We estimate a total of 1,722,864 potential notifications in accordance with Rule 204(c) across all participants per year (132 broker-dealer participants notifying broker-dealers once per day on 52 securities, multiplied by 251 trading days in 2017). The total estimated annual burden hours per year will be approximately 275,658 burden hours (1,722,864 multiplied by 0.16 hours/documentation).
- IV. Certification Requirement: As of December 31, 2017, there were 3,893 registered broker-dealers. Each of these broker-dealers may clear trades through a participant of a registered clearing agency. If the broker-dealer determines that it has not incurred a fail to deliver position on settlement date for a long or short sale in an equity security for which the participant has a fail to deliver position at a registered clearing agency or has purchased or borrowed securities in

⁴ See supra note 3.

accordance with the pre-fail credit provision of Rule 204(e), we estimate that a broker-dealer could have to make such determination with respect to approximately 1.76 securities per day.⁵ We estimate that registered broker-dealers could have to certify to the participant that it has not incurred a fail to deliver position on settlement date for a long or short sale in an equity security for which the participant has a fail to deliver position at a registered clearing agency or, alternatively, that it is in compliance with the requirements set forth in the pre-fail credit provision of Rule 204(e), 1,719,772 times per year (3,893 registered broker-dealers certifying once per day on 1.76 securities, multiplied by 251 trading days in 2017). The total approximate estimated annual burden hour per year will be approximately 275,164 burden hours (1,719,772 multiplied by 0.16 hours/certification).

- V. Pre-Fail Credit Demonstration Requirement: As of December 31, 2017, there were 3,893 registered broker-dealers. If a broker-dealer purchased or borrowed securities in accordance with the conditions specified in Rule 204(e) and determined that it had a net long position or net flat position on the settlement day for which the broker-dealer is claiming pre-fail credit, we estimate that a broker-dealer could have to make such determination with respect to approximately 1.76 securities per day.⁶ We estimate that registered broker-dealers could have to demonstrate on its books and records that it has a net long position or net flat position on the settlement day for which the broker-dealer is claiming pre-fail

⁵ See supra note 1.

⁶ See supra note 1.

credit, 1,719,772 times per year (3,893 registered broker-dealers checking for compliance once per day on 1.76 equity securities, multiplied by 251 trading days in 2017). The total approximate estimated annual burden hours per year will be 275,164 burden hours (1,719,772 multiplied by 0.16 hours/demonstration).

The total aggregate annual burden for the collection of information undertaken pursuant to all five provisions is thus 1,276,087 hours per year ($275,164 + 174,937 + 275,658 + 275,164 + 275,164$).

Written comments are invited on: (a) whether the proposed collection of information is necessary for the proper performance of the functions of the Commission, including whether the information shall have practical utility; (b) the accuracy of the Commission's estimates of the burden of the proposed collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; and (d) ways to minimize the burden of the collection of information on respondents, including through the use of automated collection techniques or other forms of information technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information under the PRA unless it displays a currently valid OMB control number.

Please direct your written comments to: Pamela Dyson, Director/Chief Information Officer, Securities and Exchange Commission, c/o Candace Kenner, 100 F Street, NE, Washington DC 20549 or send an email to: PRA_Mailbox@sec.gov.

Dated: September 7, 2018.

Eduardo A. Aleman,
Assistant Secretary.

[FR Doc. 2018-19882 Filed: 9/12/2018 8:45 am; Publication Date: 9/13/2018]